

Message Text

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TAGS: ECON, ETRD, ELAB, FI

SUBJECT: FOREIGN BORROWING PAYS FOR INCREASE OF REAL EARNINGS IN FINLAND

1. SUMMARY: REAL EARNINGS OF FINNISH WORKERS IN 1975 INCREASED BY 4.7 PERCENT WHILE DURING SAME YEAR GROSS DOMESTIC PRODUCT (GDP) DECLINED BY 0.5 PERCENT. DRASTIC FALL IN EXPORT VOLUME CAUSED DECLINE OF GDP, BUT INCREASED FOREIGN INDEBTEDNESS HAS PERMITTED FINNISH WORKERS TO ENJOY HIGHER REAL EARNINGS. PERCENT DIFFERENTIAL OF REAL EARNINGS AND GDP GROWTH SYMPTOMATIC OF FUNDAMENTAL DISEQUILIBRIUM IN FINNISH ECONOMY. END SUMMARY.

2. LAST YEAR LEADING FINNISH ECONOMISTS WERE TOO OPTIMISTIC IN THEIR PREDICTIONS OF HOW WELL FINLAND WOULD
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ENDURE INTERNATIONAL RECESSION. IN SEPTEMBER 1974

MINISTRY OF FINANCE PREDICTED THAT FINLAND'S GROSS DOMESTIC PRODUCT WOULD GROW IN 1975 BY 3 PERCENT. IN EARLY 1975 THEN PRIME MINISTER KALEVI SORSA SAID THAT FINLAND WAS IN RELATIVELY FORTUNATE POSITION AND WOULD AVOID BRUNT OF INTERNATIONAL RECESSION. HE NOTED THAT HIGH PRICES FOR FOREST-BASED EXPORTS HAD KEPT FINLAND'S TERMS OF TRADE STABLE EVEN AFTER QUADRUPLING OF OIL PRICES. PERFORMANCE OF FINNISH ECONOMY IN 1975 HAS, HOWEVER, NOT BEEN AS GOOD AS THESE ESTIMATES. RECENT PRELIMINARY PROJECTIONS BY FINNISH CENTRAL STATISTICAL BUREAU INDICATE THAT FINLAND'S GDP DECLINED BY HALF PERCENT IN 1975 AFTER TAKING ACCOUNT OF INFLATION. DECLINE OF 1975 GDP WAS LARGELY CAUSED BY ONE-FOURTH DECLINE IN EXPORT VOLUME.

3. DEPRESSION OF FINLAND'S WESTERN EXPORT MARKETS HAS NOT YET AFFECTED INCOMES OF WORKERS. REAL EARNINGS FOR 1975 ARE ESTIMATED TO HAVE INCREASED BY 4.7 PERCENT. THERE HAS BEEN NO DEPRESSION IN FINLAND FOR THE AVERAGE HOUSEHOLD IN 1975. CHRISTMAS SALES WERE BRISK AND STORES WERE FILLED WITH WIDE SELECTION OF CONSUMER GOODS INCLUDING IMPORTED ONES. FINLAND'S DIFFICULT ECONOMIC SITUATION HAS NOT YET REALLY BEEN TAKEN TO HEART BY THE AVERAGE WORKER. IN SPITE OF DECLINE IN GDP IN 1975, LABOR LEADERS ARE ASKING FOR SHORTER WORK WEEK, TWO-WEEK WINTER VACATION (IN ADDITION TO FOUR TO SIX WEEK SUMMER VACATION), AND INCREASE IN REAL INCOMES FOR 1976.

4. INCREASED FOREIGN INDEBTEDNESS HAS ACTED AS SHOCK ABSORBER CUSHIONING EFFECT OF DRASTIC DECLINE IN FINLAND'S EXPORT VOLUME. IMPACT OF INTERNATIONAL RECESSION HAS BEEN POSTPONED TO LATE DATE AT WHICH TIME FINLAND WILL HAVE TO PAY INTEREST AND PRINCIPAL ON MONEY BORROWED IN 1975. DEBT INCURRED IN 1975 MAY HAVE TO BE REPAYED WITH MORE EXPENSIVE FOREIGN EXCHANGE BECAUSE FINNISH DEVALUATION BECOMES MORE LIKELY THE LONGER HIGH FINNISH INFLATION CONTINUES. TRADE DEFICIT OF \$2.2 BILLION IN 1975 PERMITTED FINLAND TO LIVE ONE MONTH BEYOND ITS MEANS, I.E. 1975 TRADE DEFICIT AMOUNTED TO 8 PERCENT OF GDP. HIGH LEVELS OF INVESTMENT AND CONSUMPTION IN 1974 AND 1975 HAVE BEEN POSSIBLE, TO LIMITED OFFICIAL USE

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GREATER EXTENT THAT MAJORITY OF FINNS REALIZE, ONLY BECAUSE OF GROWING INDEBTEDNESS.

5. IN NOVEMBER 1975 PRESIDENT KEKKONEN PUBLICLY RECOGNIZED SERIOUSNESS OF ECONOMIC SITUATION AND INSISTED ON FORMATION OF NATIONAL EMERGENCY GOVERNMENT CHARGED WITH MAINTENANCE OF FULL EMPLOYMENT. INFLATION AND EMPLOYMENT ARE HIGHLY INTERDEPENDENT BECAUSE FINLAND

MUST SELL FOURTH OF GDP IN FOREIGN MARKERS. IF INFLATION IN FINLAND DOES NOT RETURN TO SAME LEVEL AS IN COMPETING COUNTRIES, FINLAND'S INTERNATIONAL COMPETITIVENESS WILL BE WEAKENED TO SUCH DEGREE THAT IT WILL BECOME INCREASINGLY DIFFICULT TO MAINTAIN EMPLOYMENT IN EXPORT SECTOR.

6. LARGE GAP BETWEEN GROWTH OF REAL EARNINGS AND GDP IS NOT SUSTAINABLE. ADJUSTMENTS WHICH ARE NEEDED TO MOVE FINNISH ECONOMY TOWARDS EQUILIBRIUM MAY RESULT IN STABILIZATION OR REDUCTION OF WORKERS' REAL EARNINGS, SINCE FINLAND'S ECONOMIC DISEQUILIBRIUM RESULTS ALSO IN LARGE UNFAVORABLE BALANCE OF TRADE, INCREASE OF EXPORTS AND/OR DECREASE OF IMPORTS REQUIRED AS ECONOMY MOVES TOWARDS EQUILIBRIUM. FINNS HOPE THAT RECOVERY OF EXPORTS WILL BE MAIN FORCE IN IMPROVEMENT OF TRADE BALANCE, BUT NOW FEAR THAT NOTICEABLE GROWTH OF EXPORTS WILL NOT COME UNTIL SOMETIME IN 1977. DECLINE OF GDP IN 1975 WILL CONTINUE TO MODERATE IMPORT DEMAND IN 1976, BUT ALSO POSSIBLE THAT FINLAND (LIKE OTHER COUNTRIES HAVE ALREADY DONE) MAY INTRODUCE SELECTIVE IMPORT RESTRICTIONS TO FURTHER REDUCE IMPORTS AND PROTECT DOMESTIC PRODUCTION.
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